

3Q: Above expectations

First Look

Breaking news, market events and company announcements

November 2, 2011

Rating Remains	Neutral
Target price Remains	USD 68.00
Closing price November 1, 2011	USD 70.92

Cognizant 3Q: Revenue beat vs Tier 1 IT peers

Cognizant's 3QFY11 results were above expectations. We expect the stock to react positively to the results. Key highlights of the results were: 1) Revenue growth of 7.8% q-q (ahead of Tier 1 peers' growth of 4.1-4.7% and our estimate of 6.5% q-q) and 2) GAAP EPS ahead of guidance at US\$0.73 (vs our estimate of US\$0.72 and consensus of US\$0.71). We maintain our Neutral recommendation. We prefer Info (INFO IN, Buy) and HCL Tech (HCLT IN, Buy) in the Tier 1 IT space.

3Q results: Above expectations

- Revenue growth of 7.8% q-q came in above our forecast of 6.5% (and ahead of guidance of 5.7% and consensus expectation of 6.2%).
- EBIT margin was in line with our estimate of 18.3% flat sequentially.
- Diluted GAAP EPS of US\$0.73 came in above our estimate of US\$0.72 and consensus estimate of US\$0.71. The EPS beat is partly driven by a lower tax rate of 21% vs 25% in the last quarter. The tax rate was much lower than company guidance on taxes.
- 3Q had forex losses of US\$15mn (vs a loss of US\$1.8mn in 2Q).

Guidance raise largely driven by 3Q beat; 4Q view unchanged

- Cognizant has raised its FY11 revenue growth guidance to 33% (vs 32% earlier). We believe this was largely driven by the revenue beat in 3Q.
- Implied revenue growth guidance for 4Q is for 3.7% q-q (vs Infosys' guidance of 3.2-5.4% and Wipro's guidance of 2-4% q-q). In our view this indicates no change in expectations for 4Q vs earlier.
- 4Q GAAP EPS guidance of US\$0.76 showed a growth of 3.5% q-q.
- Its FY11 GAAP EPS guidance has been raised to US\$2.83 (from US\$2.78 earlier). Our current estimate for FY11/12F GAAP EPS is for US\$2.80/3.26.

Stock reaction likely positive; we remain cautious on FY12F

Cognizant's 3Q results corroborate what has been seen at other Tier 1 IT players: demand continues to be resilient and FY11 IT spending is on track. Cognizant's revenue growth outperformance vs its peers' is likely to lead to a positive stock reaction. We would still be cautious on the FY12 outlook given 1) higher exposure to BFSI/Europe 2) Higher client concentration and 3) Valuation premium of close to 20% vs its peers (eg, Infosys and TCS). We would revisit our estimates post the conference call today.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Key things to watch out for:

- BFSI's growth outlook, especially in Europe. Peer Wipro highlighted in its 2QFY11 results conference call that it was seeing softness in demand from European investment banks.
- Inorganic contribution from Core Logic acquisition in 3Q.
- Reason for no change in outlook for 4Q, despite significant outperformance in 3Q.

Fig. 1: Cognizant 3QFY11: actual vs. expected

Key parameters	3QFY11		2QFY11	q-q (%)	3QFY10	y-y (%)
	Actual	Est.				
Revenues (US\$ mn)	1,601	1,582	1,485	7.8	1,217	31.6
EBIT margin (%)	18.3	18.3	18.2	10bp	18.8	-50bp
PAT (US\$ mn)	227	223	208	9.2	204	11.5
Diluted EPS (US\$)	0.73	0.72	0.67	9.9	0.66	11.6

Source: Company data, Nomura estimate

Appendix A-1

Analyst Certification

We, Ashwin Mehta and Pinku Pappan, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Cognizant	CTSH US	USD 70.92	01-Nov-2011	Neutral	Not rated	123
HCL Technologies	HCLT IN	INR 429	01-Nov-2011	Buy	Not rated	
Infosys	INFO IN	INR 2837	01-Nov-2011	Buy	Not rated	123

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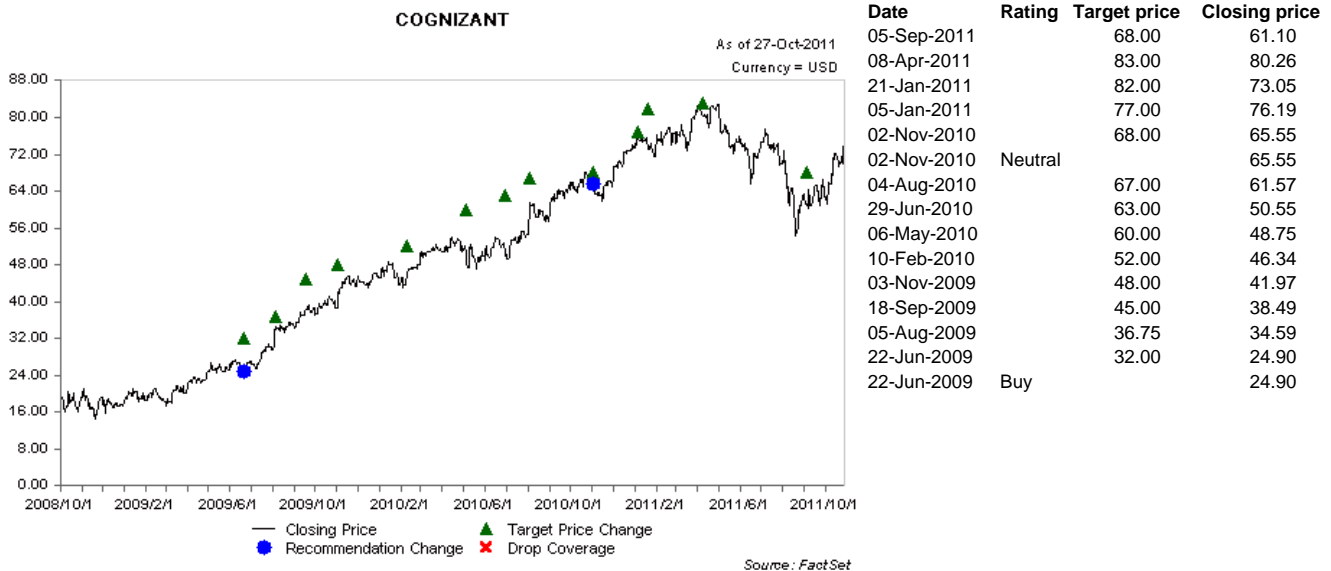
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Previous Rating

Issuer name	Previous Rating	Date of change
Cognizant	Buy	02-Nov-2010
HCL Technologies	Neutral	10-Sep-2009
Infosys	Neutral	21-Jan-2011

Cognizant (CTSH US) USD 70.92 (01-Nov-2011) Neutral (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

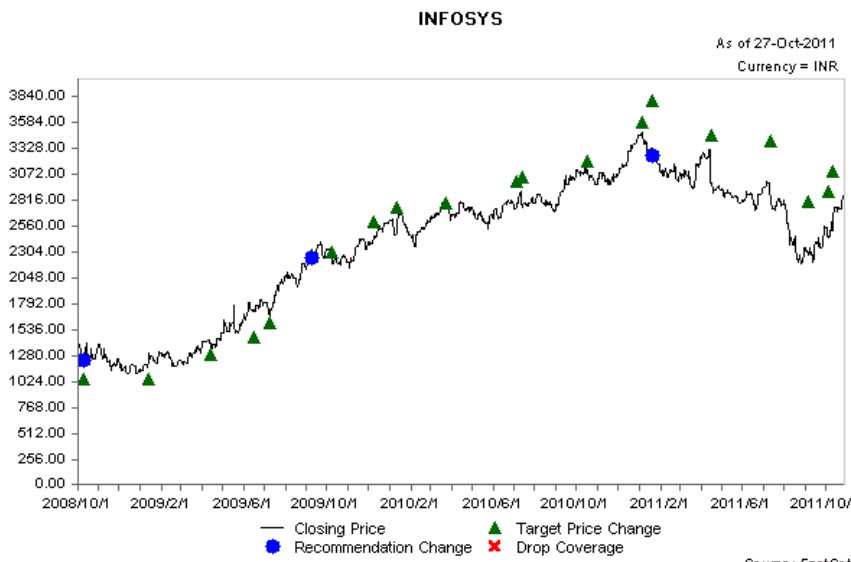
Valuation Methodology We value Cognizant at 20x our one-year forward earnings per share estimate of USD3.4, which is at a 10% discount to its long-term average to reflect higher risk in the macro environment and risks related to higher BFSI exposure. Our target price is USD68.

Risks that may impede the achievement of the target price The key risks include: 1) a faster-than-anticipated demand slowdown; 2) breakage of pricing discipline in the industry; and 3) rupee appreciation.

Infosys (INFO IN)

INR 2837 (01-Nov-2011) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
12-Oct-2011		3100.00	2680.50
04-Oct-2011		2900.00	2440.70
05-Sep-2011		2800.00	2263.85
12-Jul-2011		3400.00	2794.25
17-Apr-2011		3450.00	2988.80
21-Jan-2011		3800.00	3248.75
21-Jan-2011	Buy		3248.75
05-Jan-2011		3580.00	3467.65
18-Oct-2010		3200.00	3107.00
14-Jul-2010		3040.00	2742.30
06-Jul-2010		3000.00	2786.50
25-Mar-2010		2780.00	2805.60
12-Jan-2010		2740.00	2587.45
09-Dec-2009		2600.00	2456.15
09-Oct-2009		2300.00	2178.35
10-Sep-2009		2271.00	2235.10
10-Sep-2009	Neutral		2235.10
10-Jul-2009		1598.00	1726.50
17-Jun-2009		1458.00	1710.50
15-Apr-2009		1283.00	1370.80
13-Jan-2009		1049.00	1230.20
10-Oct-2008		1042.00	1226.70
10-Oct-2008	Reduce		1226.70

For explanation of ratings refer to the stock rating keys located after chart(s)

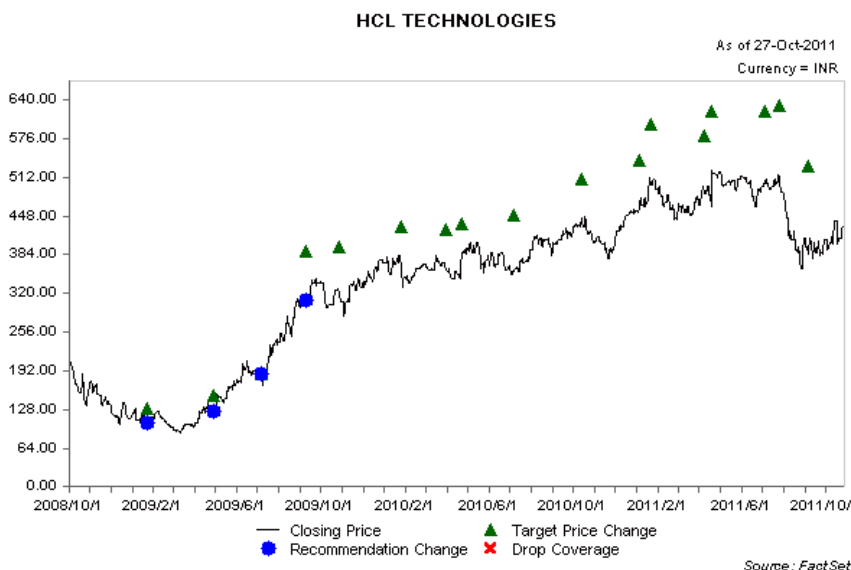
Valuation Methodology We value Infosys at 18x one-year forward earnings of INR170, which is at a 10% discount to its long-term average valuation. We believe the discount is justified on heightened economic uncertainties, increased risk aversion and an impending slowdown. Our target price is INR3,100.

Risks that may impede the achievement of the target price The key risks are: 1) worse-than-expected slowdown and breakage of pricing discipline in the industry; 2) rupee appreciation; 3) client-specific issues; and 4) an adverse ruling in its pending B1 visa violation case in the US.

HCL Technologies (HCLT IN)

INR 429 (01-Nov-2011) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
05-Sep-2011		530.00	384.15
27-Jul-2011		630.00	502.85
05-Jul-2011		620.00	506.55
20-Apr-2011		620.00	522.85
08-Apr-2011		580.00	484.35
21-Jan-2011		600.00	499.20
05-Jan-2011		540.00	471.15
13-Oct-2010		510.00	444.40
07-Jul-2010		450.00	356.00
22-Apr-2010		435.00	380.80
31-Mar-2010		425.00	357.80
26-Jan-2010		430.00	361.15
28-Oct-2009		397.00	313.50
10-Sep-2009		389.00	309.10
10-Sep-2009	Buy		309.10
06-Jul-2009		187.00	186.90
06-Jul-2009	Neutral		186.90
28-Apr-2009		152.00	125.85
28-Apr-2009	Buy		125.85
23-Jan-2009		130.00	107.00
23-Jan-2009	Reduce		107.00

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of INR530 is based on 15x our FY13F earnings forecast of INR35.3, which is in line with its historical average valuation.

Risks that may impede the achievement of the target price The key risks are: 1) worse-than-expected slowdown and breakage of pricing discipline; 2) failure to exhibit stability in margins; 3) rupee appreciation; and 4) client-specific issues.

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008)

STOCKS

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

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